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THE COMMERCIAL IMPORTANCE OF RUSSIA

Russia is as prominent on the map of discussions as in the atlas. The import of breakdown of industry and transportation in Russia has been underestimated; the meaning of famine has been overstressed in the economic sense, though hardly possible of exaggeration in the human sense. The problem of Russia is not merely an internal situation involving a catastrophic experiment in communism; it is a problem in international commerce. It is my purpose to undertake an appraisal of the utility of Russian commerce to the nations with which she traded and to determine in what ways and to what extent a functioning Russia is important to her western neighbors and to oversea countries.

It will be advantageous to state in the beginning the conclusion to which a consideration of the pre-war affairs of Russia leads, namely, that Russian commodities are of greater importance to the world as expressions of buying power than for their physical and chemical qualities. The commodities that before the war originated in Russia can be found elsewhere in the world, but the trade relations are not reproduced when this is accomplished. It is natural to exaggerate the physical importance of commodities. Economic processes are not visible in the same way. It is difficult to secure a panoramic view of world trade in which the utilities of commodities in barter are revealed in perspective. We exaggerate the physical importance of commodities that used to be obtained from Russia and underestimate the exchange processes of which the commodities were the material aspects.

Let the facts be first established. Consider Europe before the war, including the United Kingdom, as separate from Russia and engaged in trade with Russia on the one hand and oversea countries on the other. It is difficult to make exact comparisons between pre-war and present conditions, because of the secession of Finland, the East Baltic States, Congress Poland and Bessarabia, but the evaluations may be carried through without substantial error. Although Europe, thus defined, contained states that were food exporters, most of the countries were food importers. Of pre-war European countries, Austria-Hungary, Bulgaria, Roumania, and Serbia produced more food than was consumed within their borders and exported more than they imported. The other nations of Europe produced less than their requirements and imported more than they exported. Considered as a unit, Europe was a huge importer of food, feeds and raw materials. These imports came from Russia or from oversea countries (disregarding Algeria and the other adjacent Mediterranean areas). The importations of Europe from the two sources, Russia and overseas, were delicately balanced.

The datum line of price was Liverpool; the final place of cancellation of bills of exchange was London.

Europe did not pay for imports of commodities with exports of commodities. Imports exceeded exports. The excess of imports over exports of goods was rising before the war; the standard of living was being expanded more rapidly than production. The annual difference between imports and exports of goods was paid for with returns on foreign investments, services rendered in shipping, insurance and other directions, remittances of emigrants and expenditures of tourists. Net new savings in Europe were falling before the war, and had possibly declined to a figure below that of income from foreign investments. In so far as the balance of imports over exports of goods may have been paid for by returns on foreign investments, this meant that the standard of living of Europe was in excess of current earnings and was being maintained out of the savings of previous generations.

Many factors of income and outgo coöperated to produce the position of equilibrium that characterized the trade of each year. What each nation imported was the expression partly of the goods it had to export in payment, partly of physical need, partly of the intensity of the psychological factors of valuation, and partly of the requirements of plant and tool expansion to correspond to increase in population. What Russia and the oversea exporting countries had to offer Europe was less the expression of their productive capacity than of the consumptive capacity of Europe. The consumptive capacity of Europe, the buying power of European commodities and invisible resources, were the determining factors in production in Russia and in the oversea countries, in so far as related to trade with Europe, and not with each other and with other portions of the world. The trade with Europe was however the largest fraction of international trade.

Russia and the oversea exporting countries had many characteristics in common. Like South Africa, Australia, Argentina, Canada, and to some extent the western United States, Russia was in the extractive state of development. She exported raw materials largely and, with the exception of cotton, imported principally manufactured goods. She required each year increments of foreign capital, to be paid for out of excess of exports over imports of commodities. The most intensive area of industrialism in pre-war Russia, Congress Poland, is no longer contained within Russia. In the next years Russia will be an extractive country to a greater extent than before the war. She will compete with Canada, Argentina, and Australia for capital on the basis of efficiency of production of agricultural and other raw materials, if undisturbed by political conditions.

I have said that the output of Russia and the oversea countries supplying materials to Europe were not expressions or measures of

their productive capacities, but responses to the consumptive capacity of Europe. The limitations lay with the buyers. These countries could have produced far more materials had a larger European market been available. When any one country supplying Europe with goods underwent an eclipse, for any reason, it lay within the power of the other exporting countries promptly to replace the deficit.

The following tables present figures for the average imports and exports of Russia in the five years before the war. No claim of exactness is made for these estimates. It is impossible in the trade statistics of the different countries of Europe clearly to separate transit trade from importation for consumption. The trade of Russia with the oversea countries is not fully expressed in the figures, for the reason that oversea commodities were obtained by her through European countries. Students of international trade statistics are fully aware of the difficulties encountered in estimating the balance of trade in commodities. If one takes the figures of a particular country for values of goods imported and exported, a certain figure in balance is obtained. If, however, one traces the imports back to the countries of origin and the exports forward to the countries of destination and obtains in these countries the figures for the values, he secures a different result. Governmental statisticians seem agreed that the figures of a country for import are more reliable than the figures for export in terms of value; and that in general a fairer balance of trade is obtained by using for imports the figures of the country and for exports the values placed upon them by the countries of destination. That these considerations cannot be neglected is shown in the attempt to fix a figure for the balance of trade of Russia. Accepting Russian data on imports and exports, we secure the following figures for average imports and exports of commodities in the five years before the war.

RUSSO-EUROPEAN TRADE

(in million dollars)

Exports from Russia	670
Imports into Russia	421
	<hr/>
Positive balance of trade	249

If we accept the figures of countries of origin for imports into Russia and of countries of destination for exports from Russia, we obtain following figures:

Exports from Russia	988
Imports into Russia	311
	<hr/>
Positive balance of trade	677

If now, adopting the experience of governmental statisticians, we accept the Russian data for imports and for exports the data of countries of destination, we secure the following figures:

Exports from Russia	988
Imports into Russia	421
	<hr/>
Positive balance of trade	567

The figure for value of exports is too high. The German figures for imports from Russia are f. o. b. point of departure in Russia, while British figures for imports from Russia are c. i. f. port of destination in the United Kingdom. In the figure of 988 million dollars is included therefore an indeterminate figure for services in freight and insurance due Great Britain and other countries also.

Considering now the oversea trade of Russia (including Japan and China but not a number of little states that comprehend less than five per cent of the trade) we secure the following picture. Taking the Russian data for imports and exports we arrive at the following:

RUSSIAN OVERSEA TRADE

(in million dollars)

Imports into Russia	97
Exports from Russia	24
	<hr/>
Negative balance of trade	73

If we employ the data of countries of origin and of destination, we secure the following figures:

Imports into Russia	70
Exports from Russia	34
	<hr/>
Negative balance of trade	36

Employing now the Russian data for imports, and for exports the data of the importing countries of destination, we secure the following figures:

Imports into Russia	97
Exports from Russia	34
	<hr/>
Negative balance of trade	63

Combining the figures for positive balance of trade with Europe, 567 million dollars, with that for negative balance of oversea trade, 63 million dollars, we secure a figure expressing the final balance of Russian foreign trade, 504 million dollars. The debacle in Russia has compelled Europe to attempt to transfer this trade with Russia to oversea countries.

This figure looks high. It may be a hundred million too high. Russia had few invisible resources. Russian emigrants dispatched

small remittances. Tourists spent little money there. To other countries she rendered few services of the nature of shipping and insurance. Russians had few investments abroad. For practical purposes, therefore, we may disregard her invisible resources and thus her commodity exports represent her total exports. In each year, however, Russia borrowed abroad more money for improvement of transportation, development of industries, military purposes, and to pay interest charges. Russia was the site of many foreign investments. She had been the recipient of large foreign loans, governmental and private. She used considerable foreign shipping and insurance. Russian resources were employed abroad to an extensive but indeterminate extent in developing foreign political policies. Russian profligates wasted considerable sums in riotous living abroad. A large but indeterminate part of the visible balance of trade was used to pay for armament, military equipment of all kinds. Military supplies in large part were not included in the imports of Russia. These were purchased abroad on secret contracts, at grossly extravagant rates, often including a heavy graft. The balance of exports over imports of commodities was employed principally to pay fixed charges on foreign capital (interest and amortization) loaned to or invested in Russia.

The figures for Russian commerce, like those for Russian production, are unsatisfactory. Any estimate of the total balance of trade is to be regarded as approximate and inconclusive. It is regrettable that a more clear-cut presentation is not possible; but in the nature of the data available, a more scientific statement is not warranted.

The foreign trade of Russia before the war was nearly four per cent of total international trade in terms of value. Russia ranked sixth in the order of exporters, ninth in the order of importers, and seventh in the order of monetary value of total foreign trade. Germany had the largest commerce with Russia. She supplied one third of Russian imports and took one fourth of Russian exports. The United States ranked third as exporter to Russia, but imported little from Russia.

The products of a large country like Russia are naturally diversified. Most of her activities Russia shared with other countries. In one product (platinum) she possessed a monopoly; in another (flax), a position of preëminence. An appraisal of the material utility of Russian products must rest upon a survey of the products of other countries. We have first to measure the commodities freely produced elsewhere in the world as well as in Russia; and finally to consider the particular commodities in whose production Russia occupied a predominating position and determine to what extent new sources of supply elsewhere in the world have been uncovered and to what degree the articles have been replaced by substitution.

The chief items of export were products of the soil. Of the total exports, cereals represented more than half in value. The following table indicates the average exports in the five years before the war.

Barley	167	million bushels
Wheat	161	" "
Oats	63	" "
Rye	29	" "
Corn	26	" "
Potatoes	7	" "
Flaxseed, sunflower seed and other oil-seeds..	600,000	tons

The figures for cereals are more certain than for oil-seeds. The exportation of oil-seeds and derivatives was an important fraction of Russian trade. In values and calories the oil-seeds exceeded oats, rye, or maize and indeed almost equaled the three, being surpassed only by barley and wheat. The chief buyers of Russian grains and oil-seeds were Germany, the United Kingdom, the Netherlands and France, in the order named. The table serves to illustrate the large contributions made by Russian agriculture to man and beast in Europe.

War and communism have erased for the time being the surplus-export productivity of Russia and her export functions have been taken over by other countries. I am well aware that statements as to replacement of Russian grain and oil-seeds by grains and oil-seeds grown elsewhere in the world stand in contradiction to numerous gloomy forebodings with respect to limitation of world agriculture. It is however established in fact and clear in theory that the world has by no means reached the limits of available acres. There is still a reserve in world agriculture that is responsive to demand on the basis of price. A comparison of the total acreage under cultivation in the United States, Canada, Argentina, Australia, and India during the pre-war period, during the war and since the war will illustrate the capacity for expansion that has become actual in response to demand. The danger of Europe lies, first, in the fact that the elimination of one large surplus-producing country, like Russia, increases the hazard of crop failure elsewhere in the world; and, secondly, in the fact that the continued operation of increased acreage overseas from year to year must be maintained by such growers' prices as are regarded as remunerative. Australia, Argentina, Canada, and the United States are able to take over and regularly contribute the two hundred million bushels of bread-grains that Russia used annually to send to Europe. Naturally, the farmers would like to know how long the enlarged demands are prospectively to be continued, in order to plan acreage. This enlarged operation would represent no burden to the agriculture of these countries, if prices were remunerative and unusual crop failures did not intervene. During the years 1907-1914, we exported a

net average of 3,130,000 long tons of bread grains and flour; during the years 1915-1921 the average net export was 6,425,000 long tons. Before the war the average annual export of Russia was about 5,000,000 tons. Thus the United States alone has taken over two-thirds of the task of replacing the Russian bread-grains.

The same situation applies to feed-grains and oil-seeds. No one can offer Europe the barley she secured from Russia; but since this was feed-barley, it could be replaced by other feed-grains. The United States and Argentina have corn and oats enough to replace the barley, oats and corn exports of Russia. Europe has not taken them. To replace the oil-seeds of Russia, the tropics offer cocoanut, peanut, cotton seed and soya bean in quantities that are relatively unlimited.

So far as grains and oil-seeds are concerned, therefore, the agriculture of oversea countries has completely replaced the exportable surplus of Russia. Whether this continues in 1922 and farther, depends on crop hazards and prices. If we have a crop failure in the North American wheat belt this year, if the exportable surpluses of Australia and Argentina are much lower than forecasted, if wheat farmers in the four principal exporting countries find the price unremunerative and reduce acreages, then it may develop in the winter of 1922-1923, or later, that the export wheat supplies of the world do not equal the requirements of Europe. Barring an unusual coincidence of crop failure in northern and southern hemispheres, the danger of wheat shortage from limitation of acreage through price considerations exceeds danger of shortage through hazard. On account of conditions in the growing of oil-seeds, a shortage through hazard or reduction of operations is not to be feared.

One of the principal exports of Russia was flax, of which in good crop years before the war upwards of a quarter million tons were exported. Russian flax was for the largest part coarse and not of superior commercial grade. Outside of Russia it was used to a lessening extent in wearing apparel and in the home, linens of finer grade produced in other countries being preferred. It was, however, important for many technical uses. Russian flax was worked into goods largely in factories in the United Kingdom, and these have been hard hit by lack of the raw material. The lapse of Russian flax has not been made good by replacement with flax from elsewhere in the world. In Argentina, Canada and in our country flax is cultivated for the seed, and these countries have not attempted to replace the Russian fibre. At the high price of linen, substitution has been actively undertaken. Efforts to imitate linen by processing of cotton have been so successful in Germany that technical tests are required to distinguish the two fibres. Coarse grades of flax have been replaced by hemp, manila and jute. Long-fibre cotton is able to replace linen in many

uses. Finer grades of linen have been replaced by mercerized cotton and silk. In part, the deficiency remains and the world is making the best of it. It would be stretching the word essential to denominate Russian flax as essential to the industry of the world today; desirable it would be at a price, but not essential. What has been said of flax holds for the less valuable hemp.

Butter, eggs, and poultry occupied an unusually prominent position among Russian exports. The value of the export of these products exceeded considerably that of petroleum. Russia exported considerable timber, though much of it came from Finland. Unquestionably in the distant future the forest resources of Russia will prove of particular importance to Europe, but they are dispensable in the immediate future. Russia was an exporter of sugar, but there is no shortage of sugar. Furs, bristles, wool, caviar and tobacco were particular exports. The world has dispensed with these or replaced them.

Three particular exports remain to be considered. Russian petroleum has enjoyed a prominence in world trade out of proportion to the quantity involved. The Russian oil fields were approaching exhaustion with current methods of mining. Crude oil may become scarce in a decade; but existing stocks and the plane of production elsewhere indicate that for the immediate future the output of Russia is not essential.

Russia was once an important source of manganese ore. During the war development of manganese was greatly enlarged and the mines of Brazil and India are more than competent to cover the requirements of the steel industry of the world. It is questionable whether Russian manganese at the production costs of ten years ago could compete with Brazilian manganese in the market of today.

The Ural Mountains contain invaluable deposits of precious metals. The output of gold had fallen before the war to a small figure compared to the output of the world. But it is important to Russia as a basis for her circulating medium. Before the war Russia supplied nine tenths of the platinum of the world, the output being from twelve to fifteen thousand pounds. During the last three years of the war, platinum deposits were uncovered and developed elsewhere in the world. The pre-war platinum production of Russia would probably now constitute three fourths of the platinum production of the world at comparable price. During the war the world was combed for platinum and at the close of hostilities relatively large amounts were in the hands of the allied governments. The price was controlled during the war; the present price of platinum is something more than double the pre-war figure. With respect to the uses of platinum in the arts, sciences and industries, it may be said that the art use of platinum is being expanded, particularly in jewelry, while the technical use is

receding. By this I mean that year after year cheaper alloys are devised, capable of replacing platinum for particular uses. There are places where platinum is scarcely replaceable, as on the Wheatstone bridge. The best magneto breaker points are platinum. It is widely used as electrode and catalyzer. Its use as a chemical reagent is restricted. In some manufacturing processes it is irreplaceable; in other uses, a question of price. The disappearance of Russian platinum has not made platinum expensive in the world, contrasted with the index number of wholesale prices in general, on account of stocks accumulated during the war. The present consumption of platinum is, however, greatly in excess of production, and at some time in the near future the price of platinum will rise. At a certain price, substitution will occur to such an extent as to check further advance. Important as platinum is, it is not critically essential to the world in the sense that if the Russian mines are not reopened this year or next, the world will face a catastrophe in the arts, sciences and industries.

The chief pre-war import into Russia was cotton, raw and manufactured. More than half the cotton came from the United States. The second large item was metal goods—hardware, tools, wire, nails, corrugated iron, agricultural implements, and machinery of all sorts. The leading source of supply was Germany. A third important import was tea from China and India, controlled by the British trade.

The exports of Russia having lapsed, her imports must lapse unless paid for with gold or concessions, or secured through credits. Despite appreciable imports within recent months that were paid for with gold, Russian imports have remained on a level utterly insufficient to her needs. Empty trains have come to the ports of the Baltic to carry in the meagre volume of imports. The reported exportation of goods, exclusive of gold, from Russia in 1921 amounted to a little over eight million dollars.

When one surveys the importations of the several countries of Europe during the past three years, one observes that the materials previously imported from Russia have been secured from overseas. The volume of wheat and rye imported into Europe last year approximated the normal, but the countries of origin were different. Importations of feed-grains and oil-seeds have however remained much below the pre-war volume. As a result, the average output of milk and meat per unit animal in Europe is much below the pre-war figures. Europe marshals her imports in a certain order. The buying power of wheat in Europe has been very high and this has favored importation of wheat. Preference for wheat over feed-grains corresponds to priority of bread over meat, though lack of feed-grain and scarcity of mill-feed, due to high extraction in milling, have resulted in reduction of dairy products, whose scarcity is severely felt.

Since Europe is securing *from overseas* the same volume of bread-grains that she used to secure *from overseas and Russia*, what difference is it to Europe whence the source of these supplies? If Russia were producing feed-stuffs and oil-cakes available for export, would Europe be able to buy them from Russia in larger volume than she is now importing them from oversea countries that have them in abundance? Europe would prefer to buy from Russia 200 million bushels of bread-grains and from overseas 350 million bushels rather than to purchase from overseas the entire 550 million bushels. Europe would be able also to purchase from Russia feeding-stuffs that she is unable to purchase from overseas. Her power of paying Russia with commodities is a different thing from her power of paying oversea countries with additional commodities. Russia was the natural market for the manufactures of central and western Europe. The people of Russia are in serious need of goods previously obtained from Europe, whose manufacturing plants possess the tools necessary to produce goods in accordance with customary Russian specifications. Oversea countries are not in serious need of more commodities from Europe. Germany could exchange metal goods for sunflower seed from Russia much more easily than she can exchange metal goods for cotton seed from the United States. Nor is it readily possible to effect these exchanges through substitution of triangular or quadrangular trades. It is today not possible for Germany to buy cotton seed from the United States, send textiles to Russia, and have Russia pay the United States for the cotton seed with flax and platinum. The trade of the world is still disorganized, and triangular and quadrangular transactions that used to be effected at a central point of exchange are not yet working normally. Australia, Canada, Argentina, and the United States have the wheat, rye and feeding-stuffs required by Europe and could furnish them all, instead of joining with Russia in the supply of the needs of Europe, as was the case before the war. The needs of the oversea countries for the goods that Europe is equipped to offer are limited. The needs of Russia for the goods that Europe is equipped to offer are very great.

The differences between Europe's power of paying Russia and her power of paying oversea countries are qualitative and quantitative. In the qualitative sense, Russia has certain requirements in goods that could be supplied by Europeans, for the manufacture of which they are tooled up and to which their processes are adapted. Additional commodities that might be acceptable to the United States, Canada, Australia, and Argentina would be different. Europe is not in position to cater to new needs of these countries as she would be able to cater to the old needs of Russia. In the quantitative sense, the centralization of the trade of Europe becomes excessive. From oversea

countries Europe must buy copper, nickel, zinc, petroleum, tin, wool, rubber, silk and cotton, to mention only important goods, and two thirds of her import cereal needs. To add to this bill of imports a huge additional sum to cover all her import cereal needs, exceeds the capacity of Europe to focus her commerce. If the oversea countries are to bear the total burden of supplying grain to Europe, they must develop a consumptive capacity for available European commodities with which these may be paid. Such consumptive capacity exists naturally in depleted Russia, whose plane of consumption is low. But suddenly to add further increments to the consumptive capacities of the United States, Canada, Argentina, and Australia, where the standards of living are already high, is difficult and not to be achieved in a day. Unless these nations can use the goods which Europe is equipped to offer in return for grain or dispose of them elsewhere in the world, they would be saturated with customary European commodities for the time being. The more the sources of supply for Europe are centralized, the more focussed becomes the export trade. What Europe requires is diversification of trade, not centralization, because diversification means a wider export market.

The fundamental relationship can be illustrated specifically with two commodities, tea and cotton. If Russia buys no tea from India and China, these countries buy less of British cottons. Spindles stand idle, men are unemployed, the imports of cotton from Egypt and the United States are reduced, British shipping, insurance and banking decline, and cotton dams back in producing countries. The illustrations with cotton can be carried farther. The farmers of Argentina by planting the easily available acres are able to increase their exportation of wheat, let us say, 60 million bushels, one third of what Russia used to furnish Europe. Can these farmers, or indeed the entire people of Argentina, at once develop a consumptive capacity corresponding to the increment of wheat production? Does Argentina, when replacing Russia to this extent, increase her consumption of cotton to the extent of one third of the usual Russian import of cotton? Certainly not. Before the war cereals formed one half of Russia's exports, and cotton one sixth of her imports. The countries that have replaced Russia in furnishing cereals to Europe have not increased their use of cotton to the extent represented in the volume previously taken by Russia. If the peasants of Russia, not producing a normal crop and existing on a plane of living subnormal even for them, were this year to produce an increment of 100 million bushels of wheat for export, they would display immediately a corresponding consumptive capacity in cotton. When Russia exported 160 million bushels of wheat, she expected to be paid in commodities. When Canada, Argentina, Australia, and the United States expand 160 million

bushels, they expect to be paid in gold. The proposition remains fundamental, whether applied to a whole country or to an individual. The consumptive capacity that corresponds to the wheat required by Europe annually will be difficult to maintain in the United States, Canada, Argentina, and Australia on top of the customary conditions of living. If the situation were to be permanent, Europe might develop new goods to meet new needs; but consumption of traditional European goods is not easily expanded. The corresponding consumptive capacity (the market) stands waiting in Russia.

Surveyed either from the comparative standpoint of total values or by articles, it is clear that what the world misses today is not Russian production but Russian consumption. The Russian wheat is more valuable as money than as bread-grain. The importance of Russia to the world lies primarily in her consumptive capacity and secondarily in the commodities that have lapsed. The world has replaced the commodities themselves with relatively little difficulty; the consumptive capacity is replaced with great difficulty. In particular, the cultivation of additional consumptive capacity in the world is difficult when passing down-grade on a business cycle. The effect of raising more grain in countries that are already heavy exporters does not extend widely outside the industrial life of those countries. But the withdrawal from the trade of the world of the buying power represented by 200 million bushels of wheat and rye in Russia, not to mention the feeding-stuffs, extends through a network of ramifications that enter every civilized country.

Russia, previously contributing 160 million bushels of wheat to Europe, cannot import a reciprocal volume of goods because she has no wheat as payment. The countries that have raised an additional 160 million bushels of wheat find it hard to market the grain because their consumptive capacities in imports have not been expanded in proportion. Because Russia has not 500 million dollars' worth of exportable grain and oil-seeds, she cannot purchase goods to that value from producers and manufacturers the world over. Russia has been easily replaced as a producer; she is to a material extent irreplaceable as a consumer.

The countries of western Europe (ex-allied, ex-enemies and neutrals alike) seem united in the view that the desired economic restoration of Russia predicates the recovery of Russian production of foods, feeds and industrial raw materials, but does not include the revival of Russian manufactures. The desire of Europe contractually to restrict Russia to production of raw materials is in agreement with the thesis of this presentation, whatever may be thought of the policy from the standpoint of political morality. We may expect to see capital advances denied Russia for purposes of industrial rehabilitation

and extended to her—in some directions in return for concessions—for restoration of agriculture, forestry and mining. The time element is of especial importance. If Russia is to recover soon, that will indicate one kind of policy for Europe and the oversea exporting countries. If recovery is to be long delayed, that will involve a different policy for both. Immediate returns cannot be counted upon, even if reconstruction of Russia were at once got under way through coöperation of European capital with the present Russian government. For reasons that have been illuminatingly and judiciously stated in the article by E. Dana Durand in the February number of the *Quarterly Journal of Economics*, material surpluses for export will not be easily attained during the next few years, either in Russia or in Eastern Europe.

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